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SATELLITE FOREIGN EXCHANGE RATES AND THE NEW RUBLE

OFFICE OF RESEARCH AND REPORTS

CENTRAL INTELLIGENCE AGENCY

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The recent Moscow announcement defining the gold content of the ruble as .987 grams and thereby fixing the exchange rate at 1 ruble to US \$1.11 probably will be followed by changes in exchange rates by other Communist countries. Although nothing has been said in the European satellites which would indicate exactly what these changes will be or when they will occur, there is reason to believe that eventually the gold content definitions of satellite currencies will be greatly reduced and their ratios of exchange with the ruble greatly increased so as to reflect more closely the relative internal price levels of internationally traded goods.

Economists throughout Eastern Europe have been discussing the need for reassessment of relative costs and prices in order to improve the efficiency of economic planning and to facilitate the CEMA program of economic integration in Eastern Europe. The USSR, in its proposed currency reform (reducing internal prices 90 percent and issuing new rubles on a 10 for 1 basis) and the related exchange rate reform (fixing the ruble at US \$1.11), has implicitly recognized the validity of the non-commercial rate for the ruble vis-a-vis the dollar (10 to 1) as a measure of relative purchasing power. Soviet Minister of Finance Garbuzov has described the new rate as one which "conforms to the real correlation of the purchasing value of the currencies." Garbuzov also has pointed out that mean world market prices are equated to average wholesale prices in the USSR by the new exchange rate and that the relative profitability of commodity trade can now be judged more correctly.

The change in ruble rates of satellite currencies may take place on the basis of the existing non-commercial rates of exchange with the ruble (in which case some will still be grossly overvalued), on the basis of the existing dollar rate for non-commercial transactions, or on the basis of a new calculation (e.g., on the ratio of internal domestic currency prices to external dollar values of foreign trade turnover). These possible schedules are shown in the table on p. 3.

When the special non-commercial rate schedules were introduced by the USSR and the satellites in 1957, the purpose was to give travellers and diplomats a more reasonable rate of exchange for their currencies than did the commercial rates and therefore one which was more in line with respective purchasing powers over consumer goods and services. Two schedules were introduced, one a schedule of intra-Bloc exchange rates and the other a Free World schedule. Since late in 1959, the East Germans have discussed their foreign trade plans in terms of the non-commercial rate (4.2 DME to US \$1) instead of the commercial rate (2.22 DME to US \$1).^{*} Rumania recently began offering an additional premium to spenders of hard currencies in Rumania. A rate of 15 lei to US \$1 is afforded in these cases in lieu of the 12 to 1 rate established in 1957.

^{*}Cf. CIA. CSB 60-16, 14 Mar 60. C.

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Exchange Rates of the European Satellites

Country	Monetary Unit	Non-Commercial Rate on 21 Nov 60		Possible Future Rate Vis-a-vis Soviet Ruble			
		US Dollar	Vis-a-vis Soviet Ruble	Based on Current Non-Commercial Rate to US Dollar*	Based on Current Non-Commercial Rate to Soviet Ruble**	Estimate Based on New Calculation	
Albania	Lek	150.00	10.00	167.00	100.0 to 111.0	***	***
Bulgaria	Lev	9.52	0.89	10.60	8.9 to 9.9	***	***
Czechoslovakia	Crown	14.34	1.16	15.90	11.6 to 12.9	12 to 16	
East Germany	Mark (DME)	4.20	0.39	4.67	3.9 to 4.3	5 to 7	
Hungary	Forint	23.48	1.40	26.10	14.0 to 15.6	35 to 45	
Poland	Zloty	24.00	1.50	26.67	15.0 to 16.7	35 to 45	
Rumania	Leu	15.00	0.97	16.67	9.7 to 10.8	***	***

*Current US dollar rate plus 11 percent (1 ruble to US \$1.11).

**Current ruble rate multiplied by 10 for the lower limit, with 11 percent added for the upper limit.

***Data are not available on which to make an estimate.

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It is believed that the non-commercial rates vis-a-vis the dollar reflect the approximate relation of world prices to internal wholesale prices in East Germany and Czechoslovakia. In Poland and Hungary, however, even the non-commercial rates vis-a-vis the dollar would overvalue the currencies, although less than is done by the present commercial rates. Prices of materials and investment goods in these countries are much higher than in the USSR relative to prices of consumer goods, especially since the price revisions of January 1959 in Hungary and of July 1960 in Poland. Whether either of the non-commercial rates reflects the relative price levels of internationally traded goods in Albania, Bulgaria, and Rumania is not known.

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Analyst:  *deleted*Coord:

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